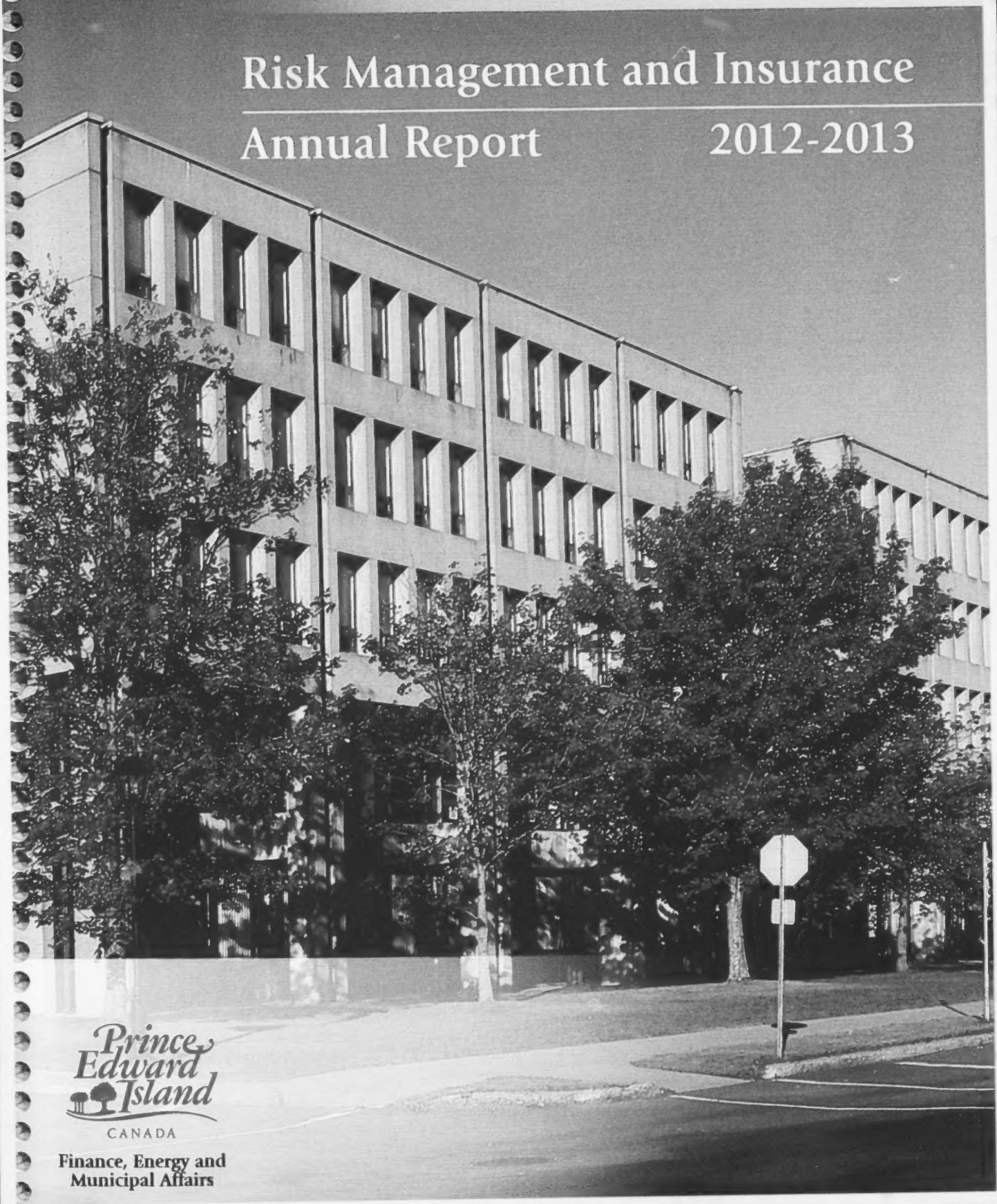
Risk Management and Insurance

Annual Report 2012-2013



Prince Edward Island
CANADA

Finance, Energy and
Municipal Affairs

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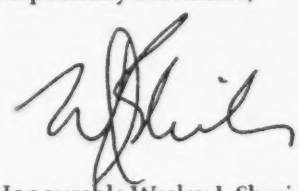
Message from the Minister

The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

May it please your Honour:

Pursuant to the *Financial Administration Act* it is my privilege to submit the Annual Report of the Risk Management and Insurance Section and the financial statement of the PEI Self-Insurance and Risk Management Fund for the period ending March 31, 2013.

Respectfully submitted,



Honourable Wesley J. Sheridan
Provincial Treasurer

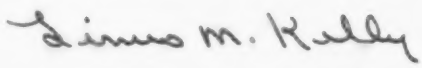
Message from the Manager

Honourable Wesley J. Sheridan
Minister of Finance, Energy and Municipal Affairs
Second Floor South, Shaw Building
95 Rochford Street
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Mr. Sheridan:

It is my privilege to submit the annual report of the Risk Management and Insurance Section of Finance, Energy and Municipal Affairs (RM&I). Included in this report are the audited financial statements of the PEI Self-Insurance and Risk Management Fund for the year ending March 31st, 2013.

Respectfully submitted,



Linus M. Kelly, BA, CIP, CRM, Manager
Risk Management and Insurance Section

Mandate of the Risk Management and Insurance Section (RM&I)

Mandate

Our section's mandate is to develop, implement and maintain Government's risk management and self-insurance programs, with the goal of eliminating or minimizing the potential for loss to Government departments, crown corporations, agencies, commissions, Health PEI and school boards/districts. The objective is to provide a quality service which protects public sector assets and programs, to control losses when they occur, by providing a professional claims management service to our insureds and the public we serve. We focus on providing professional risk management and insurance advice on a daily basis, which is essential to the many programs our clients deliver to the general population.

Manager's Overview

In 1986 the PEI Self-Insurance and Risk Management (Fund) was established by the Government of Prince Edward Island under the *Financial Administration Act.* The volatile insurance market of the day caused premiums to escalate, and there was a reluctance to insure Government sector entities. To counter the effects of escalating premiums and diminishing coverage limits, it was the decision of Government to establish its own self-insurance program. For 10 years the program administered by the Risk Management and Insurance Fund (RMI) insured the liability exposures for Government, the health sector, and school boards. The program has been responsible for building a surplus fund of approximately $5 million after paying claim and administration costs. In addition, RMI has established risk and claims management services designed specifically for Government and all associated PEI public sector organizations.

In 1997 property premiums with private insurers were increasing. The increased rates were a reflection of trends in the world marketplace and not the loss experience of the Province. A decision was made to increase our loss retention of $500,000 on Government, School and Health Sector properties. Treasury Board approved including these exposures under the umbrella of the existing self-insurance fund. Stop loss insurance with an aggregate of $1 million is purchased to limit Government's exposure for any one policy year and for any one loss. Although the events of September 2001 had a devastating effect on the insurance marketplace, Government was able to maintain stability with its rates, due to the capacity of the fund. In 2005, the program was further expanded to insure the entire automobile fleets of Government, Health and School Boards/Districts under the Fund. Government Departments, Agencies, Commissions, Crown Corporations and School Boards realized an immediate premium savings of approximately 40 per cent. In 2011 due to soft market conditions we were able to negotiate a reduction of our property loss retention from $500,000 to $250,000. This year our property loss retention on Government locations was $250,000. Schools were $250,000 and Health Sector was $100,000.

The growth of the Fund, over the last 25 years, has required our section to expand its risk capacity and the professional services needed for our clients to manage new risks, more effectively. We now have a diversified book of business and only special risks are insured in the private sector market. The *Financial Administration Act* serves as our guide to limit eligibility to reporting entities and those who use the Treasury Board Policy and Procedure Manual as their management guide.

The terrorism crisis of 2001 has changed the dynamic on how public sector entities view risk. Risk Management and Insurance continues to expand programs and services to our clients in Government and other public sector entities funded by Government. We have been able to negotiate favorable premiums with a balance between very low risk property and liability exposures, with those which by nature of the business conducted are more likely to have claims made against them. The insurance market for the past several years has been competitive and forecasters are predicting no significant premium increases for 2014.

There is a growing trend for more claims to be brought against Government and other public sector entities including School Boards who are responsible for managing the risks associated with our public education system. There are also growing numbers of malpractice suits against medical professionals, which name Health PEI Institutions and employees as defendants. Risk Management & Insurance is more vigilant than ever in managing files, which have potential for significant legal costs, before actual litigation. Human Rights claims are becoming more frequent, most of these are dismissed after effective presentations and written responses from "In House Counsels". There is a rise in the number of more complicated complaints that require time and legal expertise. These are more costly.

The potential for a monetary windfall makes the litigation process more attractive then ever. Lawsuits that were previously seen as frivolous or vexatious are now allowed into the legal process. To counter this trend, and minimize court time and legal costs, litigants can now use a "mediation" process which has saved the Fund considerable money in legal fees and court costs.

Services Provided by Risk Management and Insurance to Government Departments, Crown Corporations, Agencies, Commissions, Health PEI and School Boards/Districts

Property Risk Inspections/Engineering Surveys electronic versions are stored in a database, WEIS, of the Risk Management and Insurance Section and are made available to clients.

- School playground inspections are completed in conjunction with school board maintenance and administration staff.
- Coordinate consultant studies on major projects and critical risk-management issues of the day.
- Answer frequent inquiries and provide direction to management as it relates to loss control, legal liability issues and current claim files.
- Perform risk assessments for specific clients and develop with them in partnership an effective risk-management strategy.
- Negotiate settlements of claim files with the general public, or alternatively provide understandable explanations why particular claims will not be paid.
- Coordinate seminars and make presentations to clients of Risk Management and Insurance. The seminars are designed to target risk exposures/concerns of the client, using practical risk management practices and insurance principles.
- Provide consultation services to Procurement Services regarding tenders or RAP's, with recommendations on insurance requirements for vendors and specific language which transfers risk from Government to the service provider.
- Facilitation with Health PEI management in negotiating contracts with a broad sector of service providers with an objective to confirm vendors are adequately insured, and the contract language is fair in terms of legal responsibilities.
- Review IT contracts and confirm with vendors a Government entity can and will provide insurance coverages as required in the contract, and recommend language which will make the service providers accept legal responsibility for their programs and services.
- Support a program where qualified persons meet with families and health care professionals to examine why a particular client had an unfavorable and unexpected experience. These disclosures minimize the need for litigation, in order for family members to receive the desired details.
- We introduced new enhancements to our claims management software which will allow Risk Management and Insurance to more explicitly quantify reserves on open claims and explain developments.

Summary

The demands for services with immediate time lines is an inevitable trend in our business, we have become more efficient in how we manage our client's needs. In our experience, clients who have internal resources with risk management and insurance knowledge can respond and provide direction with minimum consultation. For this reason, we are providing more training and direction to selected individuals. Our section can approve a policy and procedure for clients rather than develop it for them. The Risk Management and Insurance Intranet web-site has been updated and modified, to make it a more useful reference to our clients.

The insurance marketplace sees Government and related entities as a source to generate revenue for their business, as a broker or insurer. Naturally, we welcome their invitations to do business, but want to maintain a level playing field when it comes to competitive quotations for our risks to be insured above and beyond our self retention values.

Brokers and insurers must be willing to insure a broad spectrum of risks in our liability, property, fiduciary and auto portfolios. It is not uncommon for us to solicit quotations for specific risks we do not wish to expose our Fund to, for a variety of loss control or insurance reasons. We now solicit quotations from PEI brokers electronically so all brokers are sent the same invitation information at exactly the same time. The Fund continues to perform very well financially.

Our financial statements provide for losses which have occurred but are not yet reported (IBNR). This together with an increase in reserves will impact the expense side of the statements. It is anticipated these figures will trend downward if our claims experience continues as it has in the last twenty-five years.

In recent years we have been actively involved in the contract process, to minimize risks associated with doing business with private sector vendors. The demands for our expertise in this area has expanded particularly with the Health Sector, as they realize the potential risk exposures with the many students training in their environment, as well as the large number of vendors providing IT support, and other goods and services to our hospitals, manors, and senior homes.

Health PEI has made significant changes to improve all efficiencies with contract management. There has also been consultations with their procurement division to minimize risk exposures in the tender processes while ensuring competitive pricing.

We are encouraged to see the cooperation and resources allocated towards initiatives such as "Business Continuity Management". These are risk management strategies developed by senior management throughout Government. This strategic management exercise will minimize risk to Government services and assets. An "Enterprise Risk Management" approach will minimize the risk of a duplication of resources and omissions in managing risks throughout the public sector.

The "Excess Insurers" of Government and Health PEI have reviewed our claims and risk management procedures and found these to meet or exceed their standards. Our departmental accounting professionals continue to extract and create reports which provide further insite on the financial performance, of the Fund's quarterly forecasts, and assist in preparing our section for the annual audit by the Office of the Auditor General.

Each year our Section has a detailed audit performed by the Auditor General's Office. The financial records of the Fund are closely scrutinized as well as other administrative accounts. The Auditor General's Office will make recommendations and the Risk Manager responds on how and when these may be implemented.

Aperçu du gestionnaire

En 1986, le gouvernement de l'Île-du-Prince-Édouard, en vertu de la *Financial Administration Act* (loi relative à l'administration financière), a instauré le Fonds d'autoassurance et de gestion des risques de l'Î.-P.-É. (Fonds). Le marché volatil de l'assurance du jour a forcé l'augmentation des primes et on hésitait à assurer les entités du secteur gouvernemental. Pour parer aux effets des primes qui continuent sans cesse d'augmenter et des limites de couvertures en diminution, le gouvernement a décidé d'établir son propre programme d'autoassurance. Pendant 10 ans, le programme administré par le Fonds assurait les risques de responsabilité pour le gouvernement, le secteur de la santé ainsi que les commissions scolaires. Dans le cadre du programme, on a créé un fonds excédentaire d'environ 5 millions de dollars, après avoir payé les coûts de réclamation et d'administration. De plus, la Section de la gestion des risques et de l'assurance a établi des services de gestion de risques et de réclamations précisément pour le gouvernement et toutes les organisations du secteur public de l'Î.-P.-É. y afférent.

En 1997, les primes sur les propriétés des assureurs privés augmentaient. Les taux plus élevés étaient un reflet des tendances du marché mondial et non pas de l'expérience de perte de la province. Une décision a donc été prise d'augmenter notre franchise sur les propriétés du gouvernement, des écoles et du secteur de la santé, qui se chiffrait à 500 000 $. Le Conseil du Trésor a accepté d'inclure ces engagements sous l'égide du fonds existant d'autoassurance. L'assurance en excédant de perte avec un agrégat d'un million de dollars a été contractée pour limiter le risque du gouvernement pour toute police d'un an et pour une seule perte. Bien que les événements de septembre 2001 ont eu un effet dévastateur sur le marché de l'assurance, le gouvernement a pu conserver une certaine stabilité pour ce qui est des taux, étant donné la capacité du Fonds. En 2005, le programme a été élargi de nouveau pour assurer tous les parcs d'automobiles du gouvernement, du secteur de la santé et des commissions scolaires couverts par le Fonds. Les ministères du gouvernement, les agences, les commissions, les sociétés d'État et les commissions scolaires ont constaté des économies financières immédiates d'environ 40 pour cent. En 2011, en raison de la faiblesse des marchés, nous avons pu négocier une réduction de notre franchise sur les propriétés, la faisant passer de 500 000 $ à 250 000 $. Cette année, notre franchise sur les propriétés du gouvernement était de 250 000 $, tout comme celle sur les propriétés du secteur des écoles. Notre franchise sur les propriétés du secteur de la santé, pour sa part, était de 100 000 $.

La croissance du Fonds au cours des vingt-cinq dernières années a fait que notre section a dû élargir sa capacité de risque et ses services professionnels nécessaires pour nos clients afin de gérer plus de risques de façon plus efficace. Nous avons maintenant un volume d'affaires diversifié, et seuls certains risques sont assurés par le secteur privé. La *Financial Administration Act* nous sert de guide pour limiter l'admissibilité pour les entités déclarantes et celles qui utilisent le *Treasury Board Policy and Procedure Manual* (Manuel de procédure et de politiques du Conseil du Trésor) comme guide de gestion.

La crise de 2001 a changé la dynamique du risque pour les entités du secteur public. La Section de la gestion des risques et de l'assurance continue d'élargir ses programmes et ses services auprès de ses clients du gouvernement et d'autres entités du secteur public financés par le gouvernement. Nous avons été capables de négocier des primes favorables en obtenant un équilibre entre des propriétés et des risques de responsabilité à très faible risque, et des propriétés et des risques de responsabilité qui

sont plus enclins à être soumis à des réclamations par la nature même des affaires qui y sont menées. Le marché de l'assurance a été concurrentiel au cours des dernières années, et les prévisionnistes ne s'attendent pas à des hausses significatives pour 2014.

Il y a une tendance croissante du nombre de réclamations portées contre le gouvernement et autres entités du secteur public, comprenant les commissions scolaires qui sont chargées de gérer les risques associés au système d'éducation publique. En outre, il y a de plus en plus de poursuites pour faute professionnelle contre les professionnels de la santé, dans lesquelles des institutions et des employés de Santé Î.-P.-É. sont les défendeurs. La Section de la gestion des risques et de l'assurance est plus vigilante que jamais dans la gestion des dossiers qui pourraient entraîner des coûts judiciaires élevés avant le début même du procès. Les plaintes relatives aux droits de la personne deviennent plus fréquentes; la plupart d'entre elles sont rejetées à la suite de présentations efficaces et de réponses écrites provenant de conseillers juridiques internes. Le nombre de plaintes plus complexes, nécessitant temps et ressources juridiques, est à la hausse. Ces plaintes entraînent des coûts plus élevés.

Le potentiel de gain financier rend le processus des litiges encore plus attirant. Les poursuites en justice qui autrefois étaient perçues comme étant futiles ou contrariantes sont maintenant permises dans l'acte judiciaire. Pour contrer cette tendance, et minimiser le temps aux tribunaux, les plaideurs peuvent maintenant faire usage d'un système de médiation qui a permis au Fonds d'épargner de larges sommes en frais judiciaires.

Services fournis par la Section de la gestion des risques et de l'assurance aux ministères gouvernementaux, aux sociétés de la Couronne, aux organismes et commissions, à Santé Î.-P.-É. et aux commissions scolaires

- Les versions électroniques des inspections de risques aux propriétés/Enquêtes d'ingénierie, conservées dans la base de données WEIS de la Section de la gestion des risques et de l'assurance et disponibles aux clients.
- L'inspection des terrains de jeux des écoles, exécutée en collaboration avec le personnel de l'entretien et de l'administration de la commission scolaire.
- La coordination des études de consultants sur des projets majeurs et des questions critiques de gestion des risques du jour.
- La réponse aux questions fréquentes et l'attribution de directives au personnel de gestion au sujet du contrôle des pertes, de questions de responsabilités juridiques et de dossiers actuels de réclamation.
- L'exécution des évaluations de risques pour des clients en particulier et l'élaboration, avec eux, d'une stratégie efficace de gestion des risques.
- La négociation de règlements de dossiers de réclamation avec le grand public ou l'explication claire quant aux raisons pour lesquelles certaines réclamations ne seront pas réglées.
- La coordination de séminaires et de présentations aux clients de la Section de la gestion des risques et de l'assurance. Les séminaires visent à cibler l'exposition aux risques/préoccupations du client, utilisant des pratiques de gestion des risques et des principes d'assurance utiles.
- La prestation de services de consultation au service d'approvisionnement à l'égard de demandes de propositions, ainsi que la formulation de recommandations sur les exigences en matière d'assurance pour les vendeurs et sur le libellé exact qui sert à transférer le risque du gouvernement au fournisseur de services.

- La facilitation auprès de la direction de Santé Î.-P.-É. dans la négociation de contrats avec divers fournisseurs de services en vue de confirmer que les vendeurs sont assurés convenablement et que le libellé du contrat est juste quant aux responsabilités légales.
- La révision des contrats TI et la confirmation auprès des vendeurs qu'une entité gouvernementale assurera effectivement la couverture comme prescrit dans le contrat, ainsi que la recommandation du libellé qui engagera les fournisseurs de services à accepter la responsabilité légale pour leurs programmes et services.
- L'appui d'un programme dans le cadre duquel des personnes qualifiées rencontrent des familles et des professionnels de la santé en vue d'examiner pourquoi un client a vécu une expérience désavantageuse et imprévue. Ces séances de divulgation minimisent le besoin d'avoir recours au litige et donnent aux membres de famille les renseignements désirés.
- Le lancement d'un logiciel de gestion des réclamations amélioré qui permettra à la Section de mieux quantifier les réserves disponibles pour payer les réclamations ouvertes et expliquer des développements.

Sommaire

Bien que la demande de services sans délai est une tendance inévitable dans notre domaine, nous avons amélioré notre efficacité de la gestion des besoins des clients. Selon notre expérience, les clients qui ont des ressources internes en matière de gestion de risque et une connaissance des assurances peuvent répondre aux clients et les orienter avec une consultation minimale. Pour cette raison, nous offrons une formation et une orientation supplémentaire à certaines personnes choisies. Notre section peut approuver une politique et une procédure pour les clients plutôt que de l'élaborer pour eux. Le site Web de notre section a été mis à jour et modifié et sert maintenant de référence utile à nos clients.

Le marché de l'assurance voit le gouvernement et les entités connexes comme une source de revenus pour leur entreprise, comme courtier d'assurance ou assurance. Évidemment, nous sommes ouverts à leurs invitations aux affaires, mais nous voulons maintenir les règles du jeu équitables quand vient le moment d'obtenir des présentations de prix concurrentielles pour nos risques afin d'être assurés au-delà de nos propres valeurs de rétention.

Les courtiers d'assurance et les assureurs doivent être disposés à assurer un vaste échantillon de risques dans nos portfolios de responsabilité, propriété, fiducies et automobiles. Il arrive fréquemment que nous sollicitions des propositions de prix pour des risques particuliers auxquels nous ne voulons pas exposer le fonds pour des raisons différentes de perte de maîtrise et d'assurances. Nous sollicitons maintenant des propositions de prix par voie électronique pour que tous les courtiers d'assurance reçoivent la même information au même moment. Le Fonds continue de bien remplir ses fonctions financières.

Nos états financiers affectent des fonds aux réclamations subies, mais non déclarées. Cette mesure, de concert avec une augmentation des réserves, aura une incidence sur les états financiers du côté des dépenses. Nous prévoyons que cette tendance s'inversera et les chiffres seront à la baisse si la situation des réclamations demeure semblable à celle des vingt-cinq dernières années.

Dans les dernières années, nous avons participé activement au processus d'attribution de contrats afin de minimiser les risques associés aux affaires auprès des fournisseurs du secteur public. Les demandes

pour notre expertise dans ce domaine ont augmenté en particulier dans le secteur de la santé, au moment où ils réalisent les risques de responsabilité potentiels en raison des nombreux étudiants qui suivent une formation dans leur milieu, ainsi qu'avec un grand nombre de fournisseurs offrant du soutien TI et d'autres biens et services dans nos hôpitaux et nos foyers de soins.

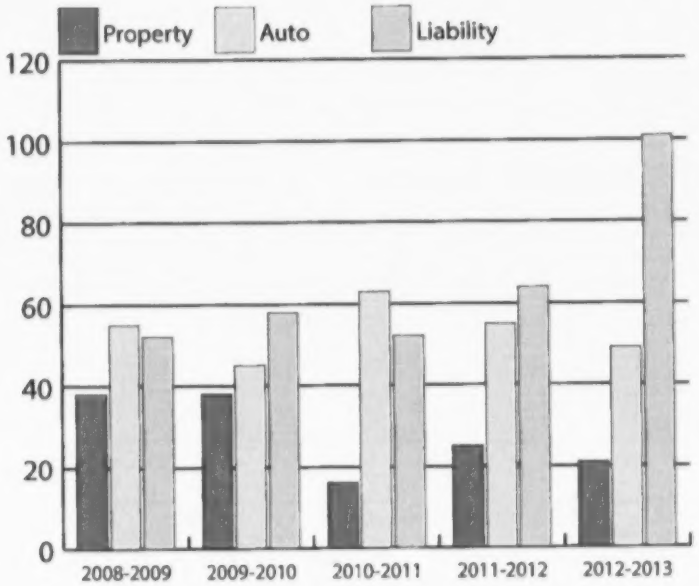
Santé Î.-P.-É. a apporté des changements importants afin d'améliorer l'efficacité dans la gestion des contrats. Des consultations ont également eu lieu avec la Direction des achats en vue de réduire les risques associés au processus d'appel d'offres tout en assurant des prix concurrentiels.

Il est encourageant de voir la coopération et les ressources que reçoivent des initiatives telles que les plans de continuité des activités. Ces stratégies de gestion de risques ont été mises au point par la haute direction dans l'ensemble du gouvernement. Cet exercice de gestion stratégique minimisera le risque que comportent les services et biens du gouvernement. Une approche axée sur la gestion du risque d'entreprise minimisera le risque du double emploi de ressources et des omissions dans l'ensemble du secteur public.

Certains assureurs du gouvernement et de Santé Î.-P.-É. ont révisé nos procédures de gestion des risques et de réclamation. Celles-ci semblent respecter leurs normes ou même aller au-delà de leurs normes. Les comptables professionnels du ministère continuent d'extraire des données et de créer des rapports qui peuvent servir à l'analyse du rendement du Fonds, à la formulation de prévisions trimestrielles de même qu'à la préparation à la vérification annuelle effectuée par le Bureau du vérificateur général.

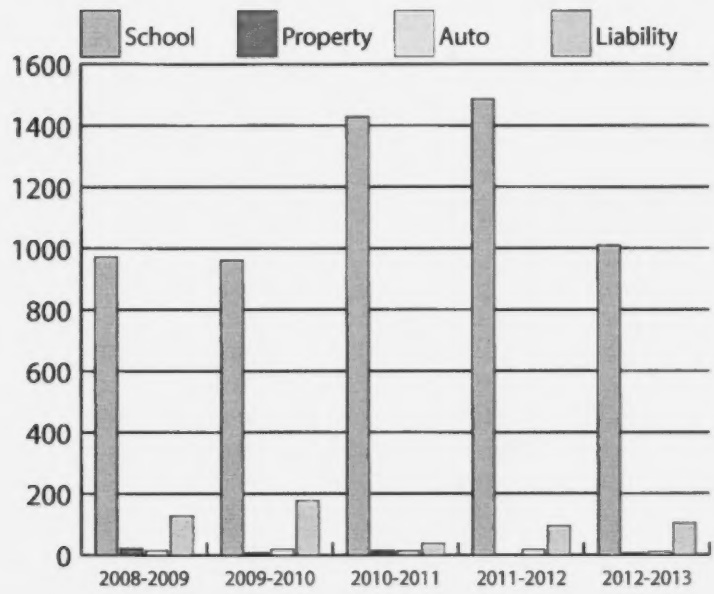
Chaque année, le Bureau du vérificateur général réalise une vérification détaillée pour notre Section. Les dossiers financiers du Fonds, ainsi que d'autres comptes administratifs, sont examinés de près. Le Bureau du vérificateur général présente des recommandations, et le gestionnaire des risques détermine de quelle façon et dans quelles circonstances ces recommandations seront mises en oeuvre.

Claims Activity Report



Claims	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Property	38	38	16	25	21
Auto	55	45	63	55	49
Liability	52	58	52	64	101
TOTAL:	**145**	**141**	**131**	**144**	**171**

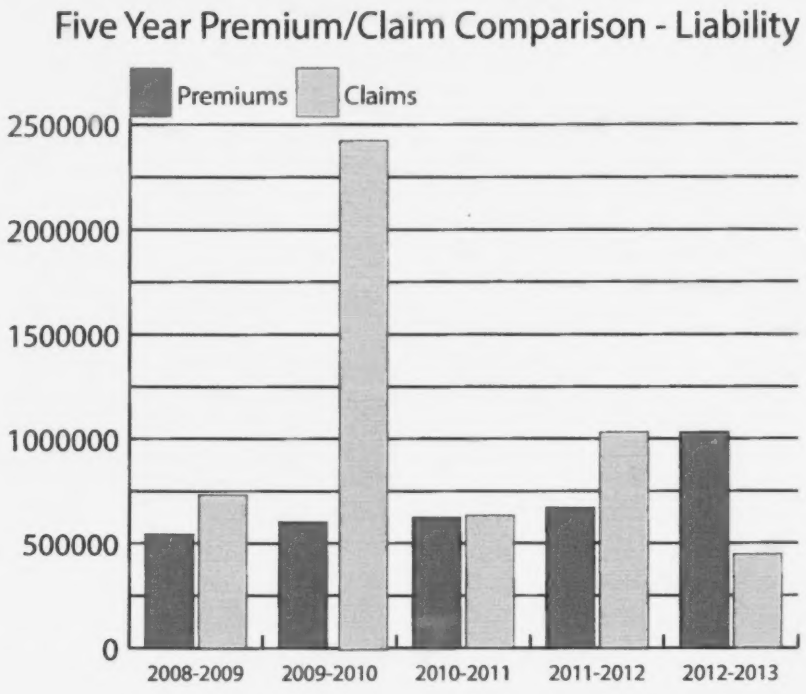
Incidents Activity Report

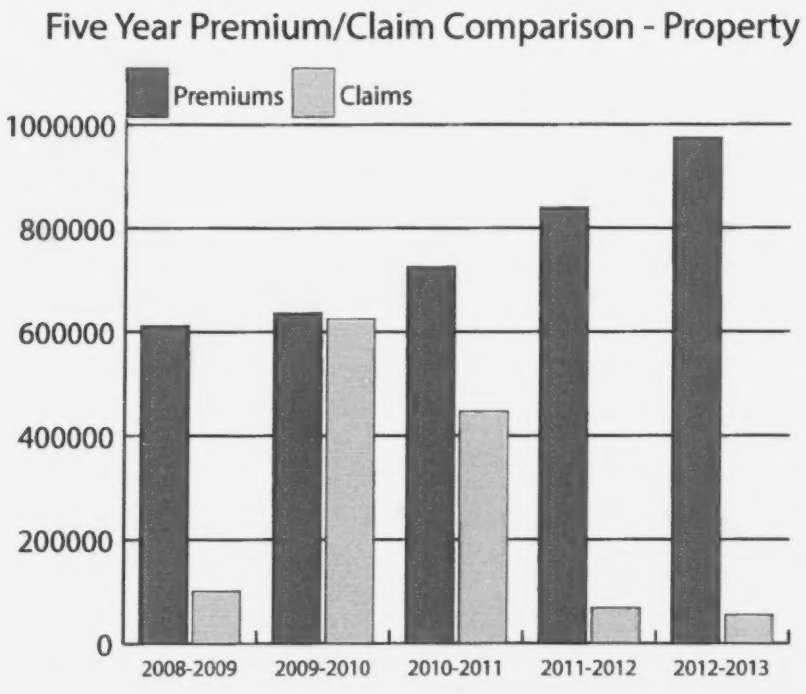


Incidents	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
School (I)	973	961	1429	1486	1011
Property (I)	21	7	14	2	5
Auto (I)	15	18	12	17	10
Liability (I)	128	177	37	95	104
TOTAL	**1137**	**1163**	**1492**	**1600**	**1130**

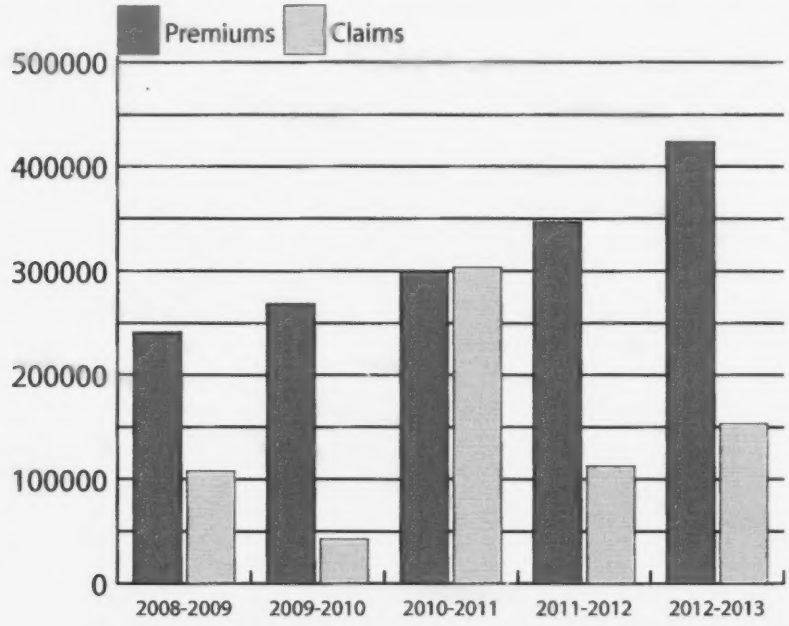
Incidents (I) = Number of written reports received for each class of incident and files opened in the event a claim is pursued.

Five Year Premium/Claim Comparison

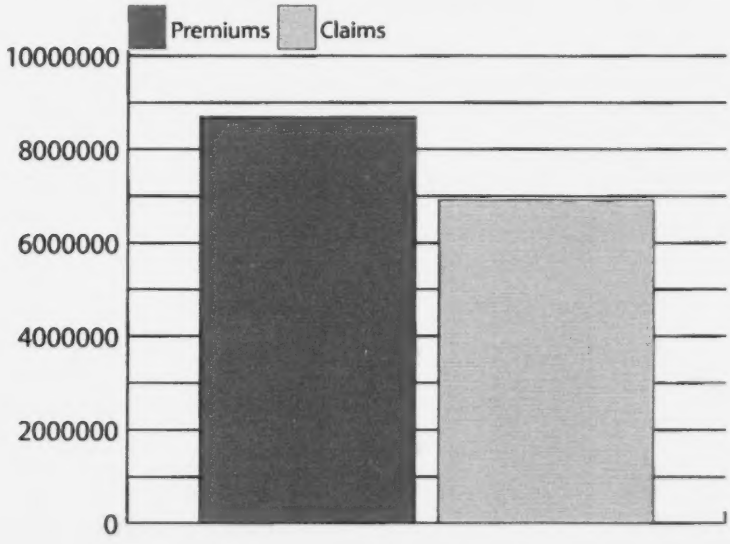




Five Year Premium/Claim Comparison - Automobile



Five Year Premium/Claim Comparison - All Classes



Loss Ratios

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Liability	134%	474%	101%	153%	31%
Property	17%	98%	62%	8%	6%
Automobile	45%	16%	101%	32%	36%

Five Year Loss Ratio for Self Insured Risk Management Fund all classes 80%

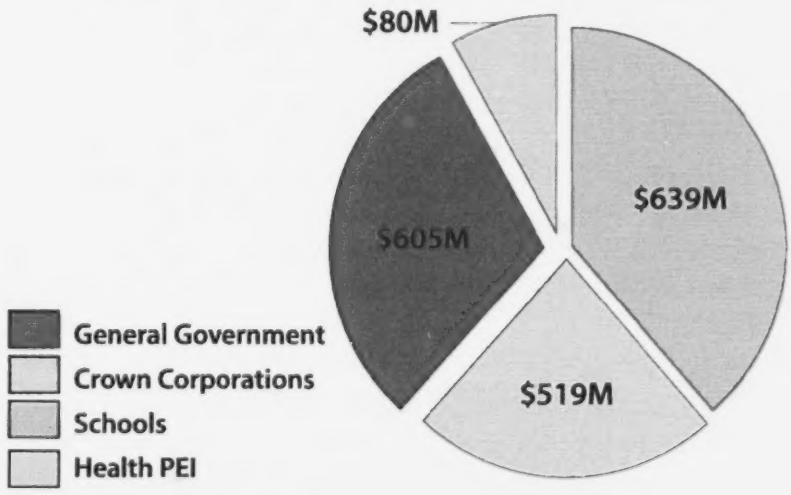
Loss Ratios are compiled for each fiscal year in order to establish whether current premiums charged are adequate to maintain the Self Insurance Risk Management Fund. Premiums are net after payments for excess insurance purchased over and above self insured retentions. Premiums for Property and Automobile include payment from General Government which cover deductibles under property insurance and physical damage claims to owned automobiles under the automobile insurance program. Property premiums include $98,000.00 allocation and automobile premiums include a $42,000,00 allocation. Claim statistics for the loss ratios are derived for each fiscal year using the Insurance & Risk Management Information System (IRMIS). File Contents Listings, which are reviewed each year. Outstanding reserves and net claims costs are combined to arrive at the total claim exposure. Once Premium and Claim statistics are complied the total amount of the claims are divided into the premium and multiplied by 100% in order to arrive at the Loss Ratio.

Insured Property Values/Auto Fleet Statistics

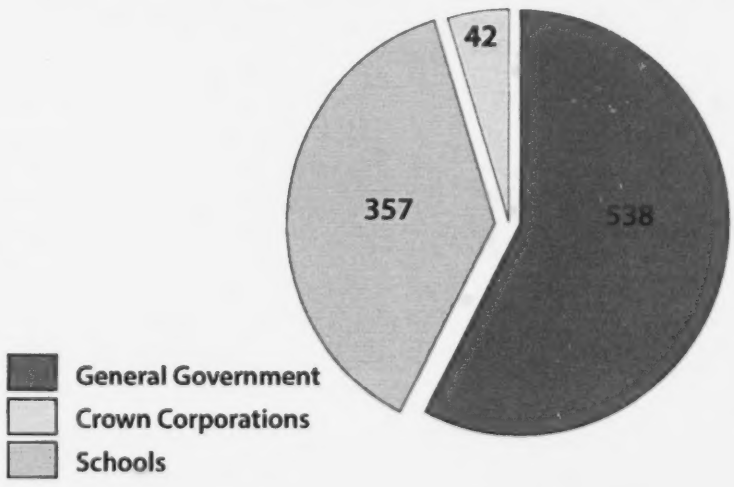
Insured Property Values (Building/Equipment/Contents)

Insured	Number of Locations	Building Values	Contractors Equipment Values	Content Values	Total
General Government	451	$415,026,852	$37,739,509	$65,738,500	$518,504,861
Crown Corporations	60	$48,926,978	$2,724,496	$28,791,722	$80,443,196
Schools	72	$581,181,767		$58,118,180	$639,299,947
Health PEI	35	$470,856,264		$134,748,051	$605,604,315
TOTAL:	**618**	**$1,515,991,861**	**$40,464,005**	**$287,396,453**	**$1,843,852,319**

Total Insured Property Values - $1.84 Billion



Fleet Automobile Statistics



Staff

Linus M. Kelly, BA, CIP, CRM
Manager

Marie Kemp, CIP
Insurance Officer

Lorna Jenkins
Finance Administrative Officer

P. E. I. Self-Insurance and Risk Management Fund

Financial Statements

March 31, 2013

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

FINANCIAL STATEMENTS

MARCH 31, 2013

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian accounting standards for the public sector and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

Treasury Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews externally audited financial statements yearly.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Self-Insurance and Risk Management Fund to meet as required.

On behalf of the Prince Edward Island Self-Insurance and Risk Management Fund

Doug Clow, CA
Secretary to Treasury Board

Linus Kelly
Risk Manager

June 28, 2013

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

INDEPENDENT AUDITOR'S REPORT

To the Members of Treasury Board:

I have audited the financial statements of the **Prince Edward Island Self-Insurance and Risk Management Fund**, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for the public sector and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2013, and the results of its operations, changes in net financial assets, and cash flow for the year then ended in accordance with Canadian accounting standards for the public sector.

B. Jane MacAdam

B. Jane MacAdam, CA
Auditor General

Charlottetown, Prince Edward Island
June 28, 2013

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013

	2013 $	2012 $
Financial Assets		
Accounts receivable (Note 3)	10,496,137	8,951,281
Liabilities		
Accounts payable and accrued liabilities	2,402	-
Unearned premiums	444,956	403,458
Reserve for unsettled claims (Note 5)	4,353,608	3,847,936
	4,800,966	4,251,394
Net Financial Assets	5,695,171	4,699,887
Non-Financial Assets		
Prepaid expenses	57,314	56,168
Accumulated Surplus	5,752,485	4,756,055

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of Treasury Board:

Member

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED MARCH 31, 2013

	Budget $	2013 $	2012 $
Revenues			
Insurance premiums (Note 6)	4,218,000	3,982,283	3,099,605
Grant in lieu of interest (Note 3)	175,000	175,000	175,000
Claim recoveries (Note 7)	150,000	575,627	151,392
	4,543,000	4,732,910	3,425,997
Expenses			
Claims (Note 5)	2,677,200	2,037,547	1,944,186
Consulting (Note 8)	63,000	81,000	80,274
Insurance premiums (Note 9)	1,532,700	1,400,955	1,336,143
Office and travel	13,600	8,335	10,692
Salary and benefits	246,500	208,643	188,915
	4,533,000	3,736,480	3,560,210
Annual Surplus (Deficit)	10,000	996,430	(134,213)
Accumulated Surplus, beginning of year	4,756,055	4,756,055	4,890,268
Accumulated Surplus, end of year	4,766,055	5,752,485	4,756,055

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31, 2013

	Budget $	2013 $	2012 $
Net Financial Assets, beginning of year	4,699,887	4,699,887	4,699,741
Changes in year:			
Annual surplus (deficit)	10,000	996,430	(134,213)
Change in prepaid expenses	-	(1,146)	134,359
Change in Net Financial Assets	10,000	995,284	146
Net Financial Assets, end of year	4,709,887	5,695,171	4,699,887

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED MARCH 31, 2013

	2013 $	2012 $
Cash provided (used) by:		
Operating Activities		
Surplus (deficit) for the year	996,430	(134,213)
Changes in:		
Accounts receivable	(1,544,856)	162,782
Accounts payable and accrued liabilities	2,402	(27,361)
Unearned premiums	41,498	37,194
Reserve for unsettled claims	505,672	(172,761)
Prepaid expenses	(1,146)	134,359
Cash provided (used) by operating activities	(996,430)	134,213
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND

SELF-INSURANCE AND RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2013

1. Nature of Operations

The Prince Edward Island Self-Insurance and Risk Management Fund (the Fund) was established under Part II of the *Financial Administration Act*. The Fund provides risk management services as well as general liability, errors and omissions, primary property, crime, and automobile liability insurance for government entities. The Fund has risk management obligations that cause it to incur expenses related to claims that may not necessarily be covered under an insurance policy. The Fund is administered by Treasury Board.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements are prepared in accordance with Canadian accounting standards for the public sector. The following is a summary of the significant accounting policies used in the preparation of these financial statements.

a) Unearned Premiums

Unearned premiums represent revenues received for insurance coverage beyond March 31, 2013.

b) Reserve for Unsettled Claims

The reserve for unsettled claims represents management's best estimate of the total costs, including investigation, litigation, and the projected final settlements of specific claims incurred as of the financial statement date. It also includes a general reserve to cover possible claims incurred as of the financial statement date but not yet reported to management.

c) Prepaid Expenses

Prepaid expenses include payments for insurance and are expensed over the periods expected to benefit.

d) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

2. Summary of Significant Accounting Policies (continued...)

e) Recoveries

Recoveries represent management's best estimate of the full amount of costs that can be recovered or are receivable, less any amounts that are uncollectible. Claim recoveries include amounts recovered or receivable from both first and third parties in relation to individual claims.

f) Financial Instruments

Financial instruments consist of accounts receivable, accounts payable, and accrued liabilities. They are carried at cost, less any provisions on accounts receivable. Provisions are calculated on a specific basis. The Fund is exposed to market, credit, and liquidity risk in relation to their financial instruments as disclosed in Note 10.

Since the Fund has no unrealized remeasurement gains or losses attributed to foreign exchange, derivates, portfolio investments, or other financial instruments, a Statement of Remeasurement Gains and Losses is not prepared.

g) Use of Estimates and Measurement Uncertainty

The preparation of the Fund's financial statements, in conformity with Canadian accounting standards for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The items requiring the use of significant estimates are the reserve for unsettled claims and claim recoveries. The reserves for unsettled claims arise from estimates of anticipated costs such as professional expenses and damages to close files that are currently open. The amount also represents an estimate for those incidents that have been incurred but not reported to management as of the financial statement date. Estimates are based on management's professional judgement, as well as third party professional advice.

3. Accounts Receivable

	2013 $	2012 $
Province of Prince Edward Island	10,405,920	8,794,754
Recoveries	39,019	126,101
Other	51,198	30,426
	10,496,137	8,951,281

The account receivable from the Province of $10,405,920 includes $6,887,571 that was invested in Provincial Deposit Receipts until March 31, 1997. At that time, Treasury Board directed the investment be redeemed and replaced by a non-interest bearing account receivable from the Province. In lieu of interest on investments, an annual payment of $175,000 is paid by the Province to the Fund.

4. Employee Future Benefits

a) Sick Leave

Employees are credited 1.25 (excluded employees 1.5) days per month for use as paid absences in the year due to illness or injury under existing employment agreements. Employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the Province. Salary expense is included in these financial statements.

b) Pension

Permanent employees of the Fund participate in the Province of Prince Edward Island's Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service. The Plan is administered by the Province of Prince Edward Island. The Fund's annual portion of the contributions to the Plan are paid by the Province and recognized on the Province's financial statements. Any unfunded liability is the responsibility of the Province and therefore no liability has been recognized in these financial statements.

4. Employee Future Benefits (continued...)

c) Retirement Allowance

The Fund provides a retirement allowance to its classified employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and not included in these financial statements.

5. Reserve for Unsettled Claims

	Liability $	Property $	Auto $	2013 Total $	2012 Total $
Reserve, beginning of year	3,609,987	65,829	172,120	3,847,936	4,020,697
Changes in reserve:					
Settlement costs	(534,069)	(56,809)	(303,127)	(894,005)	(1,204,394)
Professional service costs	(591,139)	(16,551)	(30,180)	(637,870)	(912,553)
Claims expense	1,687,000	54,832	295,715	2,037,547	1,944,186
	561,792	(18,528)	(37,592)	505,672	(172,761)
Reserve, end of year	4,171,779	47,301	134,528	4,353,608	3,847,936

6. Revenue - Insurance Premiums

	2013 $	2012 $
General liability, errors, and omissions	1,843,268	1,177,196
Primary property and crime	1,467,952	1,321,594
Automobile liability	531,063	460,815
General government premium	140,000	140,000
	3,982,283	3,099,605

7. Claim Recoveries

	2013 $	2012 $
General liability, errors, and omissions	575,277	565,680
Change in estimated recoveries	(72,039)	(501,864)
	503,238	63,816
Primary property and crime	32,487	29,420
Change in estimated recoveries	(11,438)	(10,562)
	21,049	18,858
Automobile liability	54,945	69,862
Change in estimated recoveries	(3,605)	(1,144)
	51,340	68,718
	575,627	151,392

The Fund has recorded recoveries of $481,469 (2012 - $414,358) from the Province with respect to one unsettled claim. The Province has committed to reimburse the Fund up to an additional $369,173. Claim expenses, if any, in excess of this amount are the responsibility of the Fund.

8. Consulting Expense

	2013 $	2012 $
Consulting - risk management	60,000	60,000
Consulting - legal and accounting	21,000	16,674
Property inspections and programs	-	3,600
	81,000	80,274

9. Insurance Premiums

	2013 $	2012 $
General liability, errors, and omissions	632,934	600,085
Primary property and crime	618,531	580,266
Automobile liability	149,490	155,792
	1,400,955	1,336,143

10. Financial Management

The Fund is exposed to market, credit, and liquidity risk from its financial instruments. An analysis of these risks is provided below.

Market Risk

Market risk is comprised of currency, interest rate, and price risk. The Fund does not hold or operate in foreign currency and thus market risk is derived from interest rate and price risk. Changes in interest rates significantly impact insurance companies and thus could increase the cost of premiums paid by the Fund. This risk is mitigated through the use of independent consultants and brokers to negotiate rates from reputable insurers and to monitor the marketplace for changes that could impact the Fund.

Credit Risk

The Fund is exposed to credit risk with respect to accounts receivable. The fund mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that the majority of the receivables are due from the Province of Prince Edward Island who controls 100% of the Fund. The Fund has no impaired accounts receivable at March 31, 2013.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet all its cash outflow obligations as they come due. The Fund mitigates this risk by monitoring the level of their financial assets and the growth of the same and by purchasing excess insurance to create additional liability coverage on individual claims.

The self retention limits for the Fund per claim in the current fiscal year were:

Liability	$ 5,000,000	and	$1,000,000 (Medical Malpractice)
Property	$ 250,000	and	$ 25,000 (QEH)
Auto	$ 1,000,000		

Additional coverage from excess insurers:

Liability	$10,000,000	and	$ 14,000,000 (Medical Malpractice)
Property	$50,000,000	and	$283,000,000 (QEH)
Auto	$19,000,000		

11. Related Party Transactions

Premiums collected and first party claims paid are with government entities. Certain costs incurred by the Province on behalf of the Fund are not reflected in these financial statements. These costs include office accommodations and other employee benefit and administrative expenses.

12. Budgeted Figures

Budgeted figures have been provided for comparative purposes and were derived from the estimates approved by Treasury Board.